

Message Text

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ACTION EUR-12

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EB-08 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04
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TAGS: OECD, EFIN, ETRD, ELAB, AU
SUBJ: AUSTRIAN GOVERNMENTS AUSTERITY PROGRAM TO CORRECT BUDGET
AND PAYMENTS INBALANCES

REF.: VIENNA 77 4888

PASS TREASURY AND FEDERAL RESERVE

1. SUMMARY

ON OCT 5, 1977 CHANCELLOR KREISKY PRESENTED TO PARLIAMENT A SEVEN POINT PROGRAM OF ECONOMIC POLICY MEASURES DESIGNED TO CURB EXCESSIVE DOMESTIC DEMAND, (MAINLY FOR IMPORTS) AND RESTRAIN THE FAST RISE OF THE COUNTRY'S BUDGET AND BALANCE OF PAYMENTS DEFICITS. (SEE VIENNA 4888) THE INTENDED MEASURES ARE PRIMARILY IN THE FIELDS OF MONETARY. STRUCTURAL, ENERGY, TRADE, AND INCOMES POLICIES. THROUGH SHIFTS AND CUTS OF BUDGET EXPENDITURES AND THE CREATION OF NEW REVENUES, AN AMOUNT OF AS14 BILLION IS HOPED TO BE USED TO REDUCE THE STATE DEBT AND HELP TO COUNTERACT AN EVENTUAL INCREASE IN UNEMPLOYMENT. THE BULK OF ADDITIONAL GOA RECEIPTS WILL BE UNCLASSIFIED

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DERIVED FROM THE INTRODUCTION OF A 30-PERCENT VALUE ADDED TAX RATE ON ABOUT 40 CATEGORIES OF MAINLY IMPORTED CONSUMER DURABLES INCLUDING AUTOMOBILES; A ROAD UTILIZATION TAX; INCREASES IN PENSION INSURANCE CONTRIBUTIONS; REDUCTION OF TAX BENEFITS GRANTED BUSINESS ENTERPRISES AND CERTAIN BANKS ETC. A DEVALUATION OF THE AUSTRIAN CURRENCY IS NOT CONTEMPLATED. IT IS HOPED IMPLEMENTATION OF THE PACKAGE WILL BE FACILITATED BY A MODERATE INCOMES POLICY

BY THE TRADE UNIONS. CRITICISM BY THE BUSINESS COMMUNITY AND THE TWO OPPOSITION PARTIES IN PARLIAMENT HAS BEEN FIERCE. END SUMMARY.

2. EFFECTIVE JANUARY 1, 1978, ABOUT 40 CATEGORIES OF HIGH QUALITY CONSUMER DURABLES OF FOREIGN AND DOMESTIC ORIGIN WILL BE SUBJECT TO A 30 PERCENT VALUE ADDED TAX (VAT) INSTEAD OF THE PREVIOUS 18 PERCENT RATE. THIS LUXURY TAX IS ESTIMATED TO INVOLVE 10 PERCENT OF IMPORTS AND MORE THAN 6 PERCENT OF PRIVATE CONSUMPTION AND SHOULD YIELD OVER \$2 BILLION ANNUALLY.

THE LIST OF ELIGIBLE GOODS INCLUDES:

- (1) NEW PASSENGER CARS, MOTOR BIKES, CARAVAN TRAILERS, AIRPLANES, HELICOPTERS, HANG GLIDERS, CERTAIN TYPES OF MOTORS, BUSES, USED CARS, MOTOR SCOOTERS, AND AUTOMOTIVE SPARE PARTS ARE EXCLUDED);
 - (2) SPORT AND LUXURY BOATS, AND ENGINES, OUTBOARD MOTORS;
 - (3) FILMS, PHOTO AND FILM CAMERAS, PROJECTORS, AND OTHER PHOTO EQUIPMENT
 - (4) WATCHES AND CLOCKS IN RARE METAL CASES, REAL PEARLS; PRECIOUS STONES, RAW AND CUT; SYNTHETIC STONES; JEWELRY AND PARTS THEREOF MADE OF AND/OR PLATED WITH RARE METALS; GOLD- AND SILVERSMITH WORK AND OTHER ITEMS MADE OF OR CONTAINING RARE METALS, PEARLS, PRECIOUS AND/OR SYNTHETIC STONES, ETC.
 - (5) ELECTROMAGNETIC, ELECTRONIC AND SIMILAR MUSICAL INSTRUMENTS;
 - (6) STEREO EQUIPMENT, VIDEORECORDERS, AUTOCAR RADIOS, LOUD-SPEAKERS IN BOXES, TAPE RECORDERS, RECEIVER EQUIPMENT ETC.;
 - (7) PERFUMES;
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- (8) HOUSEHOLD AND FANCY GOODS OF PORCELAIN
 - (9) FURS
 - (10) CARPETS, TAPESTRIES, PETIT-POINT WARE;
 - (11) ANTIQUES OLDER THAN 100 YEARS; GOODS OF HISTORICAL OR ETHNOGRAPHIC VALUE (UNLESS FOR INCLUSION IN PUBLIC MUSEUM).
- WHILE PRIMARILY INTENDED TO DISCOURAGE IMPORTS, THIS INCREASED VAT RATE WILL ALSO AFFECT SOME IMPORTANT DOMESTIC PRODUCERS (MAINLY OF CAMERAS AND OF RADIOS) US EXPORTS TO AUSTRIA THUS FAR ACCOUNTED FOR ONLY A SMALL PORTION OF THE AFOREMENTIONED GOODS.

3. IMPORTS OF AUTOMOBILES, WHICH ACCOUNTED FOR A LARGE PORTION OF THE RISING TRADE DEFICIT, ARE ALSO TO BE DISCOURAGED BY A SERIES OF OTHER TAX MEASURES, SOME OF WHICH ARE TO TAKE EFFECT RETROACTIVELY ON AUGUST 1, 1977. THEY MAINLY CONSIST IN A REDUCTION OR ELIMINATION OF ACCELERATED DEPRECIATION ON CARS USED FOR BUSINESS PURPOSES, AND THE ELIMINATION OF THE VAT DEDUCTION FOR NEW CARS ACQUIRED FOR BUSINESS PURPOSES.

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USOECD PASS TREASURY AND FEDERAL RESERVE

4. ALSO PROPOSED ARE INCREASES OF PENSION INSURANCE CONTRIBUTIONS BY ONE HALF OA PERCENTAGE POINT PAYABLE RESPECTIVELY BY EMPLOYERS AND EMPLOYEES, AND BY ONE PERCENTAGE POINT PAYABLE BY FARMERS AND SELF-EMPLOYED. IN ADDITION, EMPLOYER CONTRIBUTIONS TO THE FAMILY ALLOWANCES FUND ARE TO BE REDUCED BY ONE PERCENTAGE POINT, AN EQUAL AMOUNT INSTEAD TO BE REMITTED TO THE PENSION INSURANCE INSTITUTES. THUS, AS7 BILLION SHOULD BECOME AVAILABLE TO THE FINANCE MINISTER ANNUALLY. EFFECTIVE JULY 1, 1978, A ROAD UTILIZATION TAX IS TO BE LEVIED ON TRUCKS OVER FIVE TONS WEIGHT ENGAGED IN DOMESTIC AND TRANSIT FREIGHT TRAFFIC (EXPECTED YIELD AS2 BILLION IN 1978, I.E. AS4 BILLION PER ANNUM AS OF 1979,) TAX PRIVILEGES ENJOYED BY SAVINGS BANKS WILL BE ELIMINATED, AND EXCESSIVE ACCUMULATION BY BUSINESS ENTERPRISES OF FINANCIAL RESERVES FOR PENSION AND SEVERANCE PAYMENTS TO EMPLOYEES IS TO BE REDUCED TO ACTUALLY REUIRED LEVELS. ADDITIONAL FUNDS WILL BE OBTAINED THROUGH A SERIES OF ECONOMY MEASURES ON THE XPENDITURE SIDE OF THE FEDERAL BUDGET (VIENNA 4888).

5. THE PROGRAM ANNOUNCES A CONTINUATION OF THE RESTRICTIVE MONETARY POLICY; THE ESTABLISHMENT OF AN AS10 BILLION FUND TO FINANCE INDUSTRIAL INVESTMENTS PROMISING RELIEF TO THE BALANCE
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OF PAYMENTS; PROMOTION OF EXPORT-INTENSIVE FACILITIES; ALLOCATION OF MORE FUND FOR PROMOTION OF SMALL AND MEDIUM SIZED BUSINESS FIRMS, AND OF TOURIST BUSINESS; CONTINUATION OF EXISTING EXPORT FINANCING SCHEMES; ENCOURAGEMENT OF VOLUNTARY ENERGY

CONSERVATION, ETC. IN THE FOREIGN TRADE AREA, NEGOTIATIONS ARE TO BE TAKEN UP WITH THEEC TO FACILITATE AUSTRIAN EXPORTS OF SPECIAL STEELS, APPER, AND FARM PRODUCTS. MEASURES WILL BE ALSO CONSIDERED TO RESTRAIN AGRICULTURAL IMPORTS AND IMPORTS FROM EAST ASIA. REGARDING INCOMES POLICY, GOA APPEALS TO THE TRADE UNIONS TO EXERT RESTRAINT DURING THE NEXT WAGE ROUND.

6. CONSERVATIVE BUSINESS ORGANIZATIONS AS WELL AS THE TWO OPPOSITION PARTIES SHARPLY CRITICIZED THE PROGRAM. IN THEIR VIEW IT IMPOSES UNPRECEDENTED NEW BURDENS ON THE POPULATION AND THE ECONOMY. ACCORDING TO KREISKY THE PROGRAM IS THE PRICE TO BE PAID FOR THE GOA'S SUCCESSFUL ECONOMIC POLICY SINCE 1974. THE MEASURES ARE DESIGNED TO HEAD OFF REPERCUSSIONS ON AUSTRIA OF THE QUOTE PROTRACTED INTERNATIONAL ECONOMIC CRISIS UNQUOTE, FOR WHICH IN HIS VIEW NO SOLUTION IS IN SIGHT. TO THE PRESS, FINANCE MINISTER ANDROSCH INDICATED THAT THE PROGRAM COMPLIES WITH RECOMMENDATIONS OF THE IMF.

7. COMMENT: THOUGH NOT EXPLICITLY MENTIONED IN THE PACKAGE, THERE WILL NEITHER BE A DEVALUATION OF THE AUSTRIAN CURRENCY AT THIS TIME, NOR IS THE INTRODUCTION OF AN IMPORT DEPOSIT CONTEMPLATED. RUMORS THAT SUCH ACTION IS IMMINENT HAD CAUSED AN OUTFLOW OF FOREIGN EXCHANGE OF SEVERAL BILLION SCHILLINGS IN THE PAST FEW WEEKS. SINCE OFFICIAL PUBLICATION OF THE PLANNED GOA MEASURES A REVERSAL OF THIS FLOW HAS BEEN OBSERVED. AT THE SAME TIME, CONSUMERS ARE RUSHING TO BUY LUXURY ITEMS BEFORE THE END OF THE YEAR, AIDED BY MANY CASES BY THE MATURING OF SAVINGS DEPOSIT CONTRACTS BEFORE THAN AND A CONSEQUENT INCREASE IN DISPOSABLE INCOME. AN ADDITIONAL INCREASE IN UNCLASSIFIED

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THE TRADE DEFICIT MUST RESULTS. ACCORDING TO FINANCE MINISTER ANDROSCH THIS DEVELOPMENT IS INEVITABLE BUT WILL BE PARTLY OFFSET BY THE SLACKENING OF DEMAND EARLY IN 1978. THE EFFECT ON OVERALL PRICE LEVELS AND ON THE CONSUMER PRICE INDEX IS ESTIMATED AT ONLY A FRACTION OF ONE PERCENT. THE SUCCESS OF THE PROGRAM WILL DEPEND ON THE COOPERATION OF LABOR AND MANAGEMENT IN INCOMES POLICIES. SOME UNCERTAINTY EXISTS ON WHETHER THE LUXURY TAX CAN GO INTO EFFECT ON JAN JANUARY 1, 1978 AS SCHEDULED, BECAUSE AN EVENTUAL VETO OF THE CONSERVATIVE PEOPLE'S PARTY OPPOSITION IN THE SECOND CHAMBER, WHERE IT HAS THE MAJORITY, WOULD TEND TO DELAY IMPLEMENTATION BY SEVERAL WEEKS. WOLF

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